

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 L-03 H-01 IGA-02 PA-01 PRS-01
SP-02 USIA-06 AID-05 EB-08 NSC-05 TRSE-00 SS-15
STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07
NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 /101 W
-----232030 016397 /41

R 231944Z FEB 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 0916
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
USMISSION EC BRUSSELS
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USMISSION OECD PARIS
USMISSION GENEVA
AMEMBASSY STOCKHOLM
USNMR SHAPE

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PASS LABOR, TREASURY AND FRB

E.O. 11652: N/A
TAGS: ELAB, PINT, UK
SUBJECT: THE NEXT PAY ROUND - YES, BUT WHAT KIND?

REF: (A) LONDON 2680 (B) PARIS 4809

SUMMARY. BECAUSE THE TUC OBJECTS TO BUDGET PROPOSALS BE-
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ING MADE CONDITIONAL ON ACCEPTANCE OF SOME FORM OF PAY
RESTRAINT -- WHICH WAS THE CASE IN 1976 -- SERIOUS
NEGOTIATIONS BETWEEN THE TUC AND THE GOVERNMENT WILL NOT
BEGIN IN EARNEST BEFORE MARCH 29 WHEN THE SPRING BUDGET
IS EXPECTED TO BE ANNOUNCED. LATE LAST WEEK, PRESSURES
FROM SOME UNION LEADERS AND GROUPS OF WORKERS FOR AN END
TO PAY RESTRAINT MOUNTED -- OR WERE "ORCHESTRATED", AS

SOME CHARGED. THE TUC AND GOVERNMENT, WITH SUPPORT FROM THE CBI, MOVED TO DEFLECT THIS POSSIBLE POTENTIAL THREAT TO THE SOCIAL CONTRACT (REF. A). THIS WEEK, THE GOVERNMENT ADDED AN IMPORTANT INDUCEMENT FOR CONTINUED WAGE RESTRAINT BY ANNOUNCING A TOUGHER PRICES POLICY, TO WHICH THE CBI OBJECTED. AT THIS STAGE, MANY KEY OBSERVERS ARE REASONABLY CONFIDENT THAT ANOTHER YEAR OF WAGE RESTRAINT IS PROBABLE, BUT SOME OF THEM ARE WONDERING WHETHER THE NEXT ROUND WILL BE SO FLEXIBLE THAT IT LOSES ITS BASIC USEFULNESS. END SUMMARY.

1. SEVERAL UNION LEADERS WHO HAVE ALWAYS OPPOSED PAY RESTRAINT, JOINED BY OTHER LEADERS AND GROUPS OF WORKERS WHO ARE AGGRIEVED BY THE NEGATIVE EFFECTS OF TWO ROUNDS OF WAGE RESTRAINT OR FOR OTHER REASONS. HAVE GIVEN THE STAUNCHEST DEFENDERS OF THE SOCIAL CONTRACT A BIT OF A FRIGHT IN RECENT WEEKS. SOME OBSERVERS HAVE CHARACTERIZED THIS HIGHLY PUBLICIZED GROUNDSWELL CALLING FOR AN END TO WAGE RESTRAINT AS "MORE ILLUSION THAN REALITY". A KIND OF PHONY WAR REPRESENTING NO REALLY FUNDAMENTAL THREAT TO THE POLICY. SOME CBI AND TUC LEADERS (THE LATTER PRIVATELY) CHARGED THAT THIS WAS A POLITICALLY "ORCHESTRATED" DRIVE. (DAVID BASNETT OF THE MUNICIPAL WORKERS, FOR EXAMPLE, REMARKED TO US THAT TWO LEADING COMMUNISTS, DEREK ROBINSON AT BRITISH LEYLAND AND SID HARROWAY AT FORD, WERE LEADING THE PACK FOR A PRECIPITOUS RETURN TO FREE COLLECTIVE BARGAINING. THIS IS TRUE, BUT IT IS ALSO CORRECT THAT THE LEADING RIGHT-WING TRADE UNIONIST, FRANK CHAPPLE OF THE ELECTRICIANS, HAS ALSO LIMITED OFFICIAL USE

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ARTICULATED HIS OPPOSITION TO FURTHER WAGE RESTRAINT.)

2. REAL OR PHONY WAR, IT HAS ALARMED THE VARIOUS "ESTABLISHMENTS" -- TUC. CBI AND ESPECIALLY THE GOVERNMENT. TOWARDS THE END OF LAST WEEK, NO LESS THAN CHANCELLOR OF THE EXCHEQUER DENIS HEALEY, TUC GENERAL SECRETARY LEN MURRAY AND JOHN METHVEN, DIRECTOR GENERAL OF THE CBI, WERE MOUNTING SEPARATE COUNTER-OFFENSIVES IN SUPPORT OF A CONTINUED WAGE POLICY. THEIR PUBLIC EXPRESSIONS OF CONCERN, IN FACT, APPEARED TO BE NO LESS "ORCHESTRATED" THAN THE STATEMENTS AND ACTIONS WHICH MADE THEIR PRONOUNCEMENTS NECESSARY. HEALEY SAID THAT WITHOUT A THIRD PAY ROUND "ANARCHY WOULD RESULT" AND HE REFERRED TO AN "UNHOLY ALLIANCE" WHICH RANGED FROM SIR KEITH JOSEPH TO THE COMMUNIST PARTY WHICH DESIRED ONLY TO DESTROY THE SOCIAL CONTRACT AND DRIVE THE GOVERNMENT FROM OFFICE. AN OFFICIAL FROM THE COMMUNIST PARTY COUNTER-CHARGED THAT THE GOVERNMENT, SOME TUC LEADERS AND THE CBI HAD FORMED AN "UNHOLY ALLIANCE" FAVORING THE

REDUCTION IN LIVING STANDARDS.

3. THE BATTLE OF WORDS -- AND FROM TIME TO TIME EVEN
INDUSTRIAL ACTION OF ONE KIND OR ANOTHER -- STILL
CONTINUES. BASNETT SAYS: "THOSE WHO ARE MAKING ALL THE
NOISE ARE NOT NECESSARILY CALLING THE TUNE. I AM CONFI-

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DENT THERE WILL BE A PAY DEAL." SINCE HE IS ONE OF THE
MOST INFLUENTIAL MEMBERS OF THE TUC LEADERSHIP GROUP. HE
SPEAKS WITH AN AUTHORITATIVE VOICE. BUT HE AND ALL THE
OTHER TUC LEADERS HAVE MADE IT CLEAR THAT ALL THE

PROBLEMS WHICH TWO YEARS OF WAGE RESTRAINT HAVE CAUSED
MUST BE DEALT WITH IN A NEW ROUND. THE PROBLEM OF
DIFFERENTIALS -- IN WHICH HIQHL Y SKILLED WORKERS HAVE
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SEEN ERODED THEIR PAY ADVANTAGE OVER THE LESS SKILLED --
NEEDS TO BE DEALT WITH. ANOMALIES -- PAY AND OTHER
INEQUITIES FROZEN INTO THE SYSTEM -- NEED TO BE REMOVED,
AT LEAST IN PART. SOME WAY OF INSTITUTING PRODUCTIVITY
INCENTIVES MUST BE CONSIDERED. AL OF THESE ITEMS, AS
WELL AS DIVIDEND AND PRICE CONTROLS, MUST BE FACTORED
INTO ANY WAGE ACCORD WHICH THE TUC ULTIMATELY ACCEPTS.

4. BUT WHAT ABOUT THE COST OF RESOLVING THESE PROBLEMS?
THAT'S THE RUB. THE CLOSER ONE GETS TO RESOLVING THEM,
THE LARGER WILL BE THE PAY COSTS AND THE MORE INFLATION-
ARY THE RESULT. ON THE OTHER HAND, IF A "TIGHT" AGREE-
MENT IS ACHIEVED WHICH MINIMIZES THE PAY COST, THERE IS
GREAT DANGER THAT THE ACCORD WILL BE HONORED IN THE
BREACH, AS PRESSURE -- REAL AND NOT ILLUSORY -- FROM THE
"SHOP FLOOR" ITSELF CIRCUMVENTS WHAT THE NATIONAL LEADERS
HAVE ACCEPTED. AS YET. THE TUC IS NOT EXPRESSING ITS
VIEWS ON HOW MANY POUNDS AND PENCE IT WILL ACCEPT, OR IN
FACT WHAT KIND OF FORMULA IT PREFERENCES. THE GENERAL
COUNCIL, WHICH IS PUTTING THE FINISHING TOUCHES TODAY
(FEBRUARY 23) ON THE TUC'S ANNUAL ECONOMIC REVIEW, HAS
DELETED ALL BUT GENERALIZATIONS FROM ITS SECTION ON
COLLECTIVE BARGAINING. THE FIELD IS STILL WIDE OPEN,
THEREFORE, AND HARD FIGURES WON'T BE MADE PUBLIC UNTIL
AFTER THE BUDGET ANNOUNCEMENT, BUT NO ONE DOUBTS THAT
THE DEMAND WILL BE HEFTY, WITH ESTIMATES RANGING FROM
SEVEN TO OVER TEN PERCENT, APART FROM ANY TAX CONCESSIONS
THE CHANCELLOR MAY OFFER. SOME FINANCIAL SECTOR
OBSERVERS THINK THE ULTIMATE COST COULD BE AS HIGH AS
15 PERCENT.

5. VIEWED FROM THE TRADE UNION LEADER'S PERSPECTIVE, HE
HAS TO ARGUE HIS CASE NOT ONLY BEFORE THE GOVERNMENT
"NEGOTIATORS" BUT ALSO, AND NOW MORE IMPORTANTLY THAN
EVER, WITH THE RANK AND FILE. IN DOING SO. HE HAS TO
DEAL WITH A VERY HIGH INFLATION RATE -- OF ABOUT 16
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PERCENT -- WHICH HAS ERODED WORKERS' PAY RATHER SIGNIFI-
CANTLY AND HAS TO BE SEEN IN THE CONTEXT OF OVERLY ROSY
PROMISES OF CUTTING INFLATION WHICH HAVE BEEN VOICED IN

THE PAST BY GOVERNMENT LEADERS AND REITERATED BY THE TUC ESTABLISHMENT. MOVING TO DEAL WITH THIS PROBLEM, THE GOVERNMENT YESTERDAY (FEBRUARY 22) ANNOUNCED THAT IT WILL SEEK FAR-REACHING POWERS TO ALLOW IT TO INTERVENE DIRECTLY AGAINST "UNREASONABLY" HIGH PRICES. ITS PROPOSALS WILL INCLUDE AN ENLARGED PRICE COMMISSION WITH THE POWER TO INVESTIGATE APPLICATIONS FOR PRICE RISES. (THE TUC WARMLY WELCOMED THE NEW PROPOSALS, WHICH, HOWEVER, WERE STRONGLY REJECTED BY THE CBI.) THE NEW PROPOSALS WILL UNDERGO A HARD SLOG IN PASSING THE COMMONS IN THEIR PRESENT FORM, BUT THEY DO OFFER THE TUC LEADERSHIP A PERSUASIVE TOOL IN SELLING ANY ULTIMATE ACCORD WITH THE GOVERNMENT.

6. COMMENT. DURING THE NEXT HECTIC WEEKS AND MONTHS, WE BELIEVE A PAY ACCORD WILL BE HAMMERED OUT, ALTHOUGH ONE TUC OFFICIAL THINKS THAT FINAL AGREEMENT MAY NOT BE REACHED UNTIL JUST BEFORE THE CURRENT ROUND EXPIRES (JULY 31). THE GOVERNMENT'S REAL DIFFICULTY IS TO STEER A COURSE BETWEEN THE SCYLLA OF AN INFLATIONARY AGREEMENT AND THE CHARYBDIS OF A TIGHT ACCORD WHICH WON'T BE WORTH THE PAPER IT IS PRINTED ON. SOME OF THE PRESENTLY HOPEFUL TRENDS IN THE UK ECONOMY, SUCH AS SUGGESTED IN THE OECD'S ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE PROJECTION OF "CONSIDERABLE IMPROVEMENT IN UK ECONOMIC PERFORMANCE THIS YEAR" (REF. B) COULD BE SHARPLY THWARTED BY A HIGHLY INFLATIONARY WAGE SETTLEMENT. THE GOVERNMENT HAS PLENTY OF PROBLEMS ON ITS HANDS (SEE SEPTTEL OVER DEVOLUTION "GUILLOTINE") BUT THE NEXT WAGE ROUND DETERMINATION IS ONE OF THE MOST IMPORTANT. A LOOSE THIRD ROUND WOULD RISK A NEW WAGE-PRICE EXPLOSION.

ARMSTRONG
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Message Attributes

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